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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCPDOC/DEPT OF COMMERCE WASHDC

RHEBAAA/DEPT OF ENERGY WASHDC

RUEATRS/DEPT OF TREASURY WASHDC

RULSDMK/DEPT OF TRANSPORTATION WASHDC

RHMFIUU/FAA NATIONAL HQ WASHINGTON DC

RUEHRC/DEPT OF AGRICULTURE WASHDC

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SIPDIS

SENSITIVE

STATE FOR SCA/INS AND EEB

USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD

DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR

DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY

DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT

TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN

USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER

EEB/CIP DAS GROSS, FSAAED, MSELINGER

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BEXP, KIPR, KWMN, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF MARCH 16 TO MARCH 20, 2009

**¶11. (U)** Below is a compilation of economic highlights from Embassy New Delhi for the week of March 16-20, 2009, including the following:

-- Inflation Falls to a Historic Low  
-- Foreign Direct Investments High Through January  
-- India Discusses Free Trade Pact with Chile  
-- New Pension Scheme for Informal Sector  
Deferred By Two Months  
-- Indian Shrimp Exporters Hope to Benefits from Reduced Anti-dumping Duties  
-- D.K. Mittal Takes Over as Additional Secretary (WTO)  
-- US Pharma Bill Would Open Market for Indian Generics  
-- Tata Seeks Patents for Nano Car Inventions  
-- Turkey and Egypt Slap Additional Import Duty On Indian Textile Yarn

Inflation Falls to a Historic Low

**¶12. (SBU)** India's wholesale price index (WPI) inflation year on year for the week ending March 7, 2009 fell to a record low of 0.44 percent (the lowest since 1977). While the fuel index remains in negative territory (-5.95%), prices of primary products were up 4.38%. Manufactured products decelerated sharply to 1.32%, a result of contraction in metal prices. Much of the current fall in inflation is due more to last year's high base effect in many commodities than any great decline in real consumer prices. Retail food prices continue to be high, with food grains prices about 9 percent more expensive than a year ago. Economists expect WPI inflation to turn negative for a few months, which might prompt consumers to delay spending in hopes of further price reductions, causing demand to fall. However, Montek Singh Ahluwalia, Deputy Chairman of the Planning Commission, speaking to reporters on March 19, predicted that the inflation rate would rebound from its present level, as there is still demand in the economy, which is expected to rise further in the second half of the year. He further suggested that India's low inflation will enable policy makers to take more steps to stimulate a slowing economy, which many took to mean further reductions in interest rates.

## Foreign Direct Investments High Through January

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**¶3.** (U) India's foreign direct investment (FDI) inflows into India grew 58 percent to \$2.7 billion in January 2009 (after registering an average rise of just \$1.32 billion for three consecutive months) compared to \$1.76 billion in the same month a year ago. Cumulative FDI inflows for April-January 2009 totaled \$23.8 billion and are expected to at least reach \$25 billion for this fiscal year ending March, although the government's target of \$35 billion set last year may not be met. Ajay Shankar, Secretary of the Department of Industrial Policy and Promotion, was quoted to have said that "January numbers are very good... It is an indication of the confidence that the rest of the world has in India." However, economists note that the increase in January could be from commitments made before the global financial crisis.

## India Discusses Free Trade Pact with Chile

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**¶4.** (U) During a recent meeting in New Delhi, Chilean President Michelle Bachelet and Prime Minister Manmohan Singh decided to deepen bilateral ties by exploring the possibility of a bilateral free trade agreement (FTA), initiated steps to expand defense cooperation, and intensified scientific ties, especially with respect to Antarctica. India and Chile already have a functional Preferential Trade Agreement (PTA), with current bilateral trade at more than \$2.3 billion. Both countries have decided to strengthen cooperation in information technology and biotechnology. Aiming to double trade in five years and to enhance defense cooperation, Chile also announced the opening of a commercial office and defense attache's office at its embassy in New Delhi. During President

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Bachelet's visit, Chile and India also signed documents in the areas of new and renewable energy, education, exploration and utilization of outer space for peaceful purposes and geology and mineral resources.

## New Pension Scheme for Informal Sector Deferred By Two Months

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**¶5.** (U) The Pension Funds Regulatory and Development Authority (PFRDA) has deferred launching the introduction of the New Pension System (NPS) for informal and private sector workers by at least two months, because of the upcoming elections. Introduction of the scheme for informal sector workers, which will allow partial investment of pension funds in equities, was initially set to be rolled out on April 1, 2009. The PFRDA has already short-listed the six fund managers and 23 points of presence to collect the contributions from the investors, though contracts had not been signed. The regulator had also started an advertising campaign in the last week of February to seek workers participation, which is reported to have generated a lot of interest. However, in order not to violate the moral code of conduct for elections, scheduled to be held in April-May, the PFRDA decided not to continue the information campaign and undertake the participatory activities as originally planned.

## Indian Shrimp Exporters Hope to Benefit from Reduced Anti-dumping Duties

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**¶6.** (U) Pursuant to the U.S. decision to reduce antidumping duties on Indian shrimp, domestic industry reportedly hopes to become competitive in the U.S. market once again. According to the Indian seafood industry, shrimp exports to the U.S. have declined in recent years due to several reasons, namely, the decline (until recently) of the dollar against major global currencies, slower growth of the U.S. economy, anti-dumping tariff disputes, and a reduction in consumer confidence. The Kochi-based Seafood Exporters Association of India (SEAI) expects a further cut in the dumping duty on Indian shrimp in July 2009 with a final U.S. review.

D.K. Mittal Takes Over as Additional Secretary (WTO)

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¶7. (U) D.K. Mittal was recently named an Additional Secretary for the Ministry of Commerce and Industry, in the post held previously by Rahul Khullar. As the top bureaucrat of the Trade Policy Division in the Ministry, he will be responsible for WTO negotiations, reporting directly to Commerce Secretary GK Pillai. Mittal is known to be an approachable, results-oriented, and dynamic personality. He is an IAS Officer of the 1977 batch from the state of Uttar Pradesh. He previously served as Joint Secretary (Americas) in Commerce from 1998-2004, a post currently occupied by Anil Mukim. In addition to his assignments at the Center, he has held key positions in his cadre state of Uttar Pradesh. He was the CEO of Infrastructure Leasing and Financial Services (IL&FS) and Secretary to the Chief Minister of Uttar Pradesh. He is also a postgraduate in Physics.

US Pharma Bill Would Open Market for Indian Generics

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¶8. (U) Local media reported this week on the possible impact on the Indian generic drug industry of a pharma bill introduced in the U.S. Congress. The bill, introduced by Senator Herbert Kohl (Wisconsin), aims to make it easier for generics to gain access to the U.S. market. The bill would ban MNC pharma companies from transferring authorized generics to third parties, allowing cheaper generics to enter the market. Most Indian generic exporters, such as Sun Pharma and Cipla, would likely benefit from the bill; however, Indian companies selling authorized generics would take a hit, including Dr Reddy, which recently introduced a generic migraine treatment in the U.S. that significantly increased its North American sales.

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Tata Seeks Patents for Nano Car Inventions

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¶9. (U) Tata Motors has applied for 37 patents to protect inventions and innovations related to the development of the Nano, the high-profile low-cost vehicle that will be launched on March 23. The company has also begun filing patent applications overseas, in line with its hopes to launch the Nano globally in 2011 in Eastern Europe, Latin America, Africa and South East Asia. Several other auto-manufacturers have announced plans to develop low-cost vehicles and Tata is concerned that the inventions associated with making the car low-cost and fuel efficient, including specialized components and the rear-engine design, may be copied. According to local media, Tata Motors is already close to filing Intellectual Property claims in international markets.

Turkey and Egypt Slap Additional Import Duty on Indian Textile Yarn

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¶10. (SBU) Econoff met Commerce Ministry Director Mukesh Bhatnagar who confirmed that India has initiated a request for consultations with Turkey on the imposition of safeguard duties on the import of Indian cotton yarn. The Indian textile industry has viewed the measure as a protectionist one and demanded the government to seek arbitration at the WTO dispute settlement body. It is not clear at this moment whether India will challenge the move in the WTO; Bhatnagar informed Embassy officials that the ministry has not yet received an official notification from the Turkish government, and that his department is still collecting information from the industry to assess the compatibility of the safeguard duty to the WTO norms. In the meantime, the Government of India (GOI) has requested consultations with the Turkish government and they are expected to take place some time in April 2009. According to media reports and industry statements, the effective import duty on natural yarn in Turkey ranges between 15 and 20 per cent, against its 5-percent bound rate.

¶11. (SBU) Egypt has also imposed a safeguard duty of 25 per cent on natural yarn recently against its bound duty rate of 15 per cent. Bhatnagar stated that Egypt has termed the additional duty as an "import fee" and the GOI is seeking more information from the Egyptian authorities on details of the levy, before asking for bilateral consultations. The ministry has also started an

investigation into the additional duty imposed by Egypt on the product.

¶12. (SBU) Turkey and Egypt are among India's major textile export destinations with sales worth about \$300 million; due to the recent protectionist measures, the industry expects a drastic drop in exports to both countries. Motivated by cotton yarn exporters' demand to take up the issue at the dispute settlement body under the WTO, the GOI is prepared to challenge the move if investigations point to violation of WTO norms and the issue is not resolved through bilateral consultations.

¶13. (U) Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>.

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